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# Concepts of performance budgeting and their applications to the Navy Department

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CONCEPTS OF PERFORMANCE BUDGETING  
AND THEIR APPLICATIONS TO THE NAVY DEPARTMENT

BY

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The George Washington University

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Navy Graduate Comptrollership Program



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## CHAPTER I

### ESTABLISHING THE PERFORMANCE BUDGET

#### IN THE NAVAL ESTABLISHMENT

Congressional Action. Public Law 162, Eightieth Congress, approved July 7, 1947 established the Commission on Organization of the Executive Branch of the Government under the direction of Herbert Hoover, chairman.

The Commission was bi-partisen with six (6) members from each party. The Commission began its work by defining some twenty-four (24) of the principal problems of the government and management. One of these problems was the need for reform in the method of budgeting.

Task forces composed of some of the most qualified men in each field of endeavor were assigned to report and propose a solution to these problems.

In the Commission's report to Congress under the section titled, "The Budget", the first recommendation was that the whole budgetary concept of the Federal Government should be refashioned by the adoption of a budget based upon functions, activities, and projects. This concept of budgeting they called "performance budgeting".

The Congress accepted this recommendation of the "Hoover Commission" in this respect and through Section 11, P. L. 216, 81st. Con-





gress, August 10, 1949, it amended the National Security Act of 1947 by incorporating under TITLE IV "Promotion of Economy and Efficiency through Establishment of Uniform Budgetary and Fiscal Procedures and Organization"; section 403 - Performance Budget.

(a) The budget estimates of the Department of Defense shall be prepared, presented, and justified, where practicable, and authorized programs shall be administered, in such form and manner as the Secretary of Defense, subject to the authority and direction of the President, may determine, so as to account for, and report, the cost of performance of readily identifiable functional programs and activities, with segregation of operating and capital programs. So far as practicable, the budget estimates and authorized programs of the military departments shall be set forth in readily comparable form and shall follow a uniform pattern.

(b) In order to expedite the conversion from present budget and accounting methods to the cost-of-performance method prescribed in this title, the Secretary of each military department, with the approval of the President and the Secretary of Defense, is authorized and directed, until the end of the second year following the date of enactment of this Act, to make such transfers and adjustments within the military department of which he is the head between appropriations available for obligation by such department in such manner as he deems necessary to cause the obligation and administration of funds and the reports of expenditures to reflect the cost of performance of such programs and activities. Reports of transfers and adjustments made pursuant to the authority of the subsection shall be made currently by the Secretary of Defense to the President and the Congress.<sup>1</sup>

Although the Congress had not passed a law establishing the system of performance budgeting in the federal government prior to 1949, it does not follow that the Congress was without opinion on the subject. On the contrary, as far back as January of 1946 the members of the subcommittee on Naval Appropriations requested that the Secretary of the Navy take steps to submit a revised budget which would clarify management and fiscal responsibility in the Department of the Navy.

As a result of the recommendations of this committee on appro-

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<sup>1</sup>Sec. 11 P. L. 216, 81st. Congress



priations, the Navy set out to correct defects existent in the old appropriations structure. The most apparent defects in the old structure (i.e. for Fiscal year 1947) were:

1. The cost of every primary Navy function was charged to numerous appropriations.
  - (a) Contributing appropriations cut across functional and organizational lines.
  - (b) Appropriations overlapped.
2. Fiscal responsibility was diffused because:
  - (a) Activities were financed from diverse sources.
  - (b) Activities had many fiscal masters.
  - (c) As a result, fiscal management "was divorced from" management responsibility.
3. Internal management was difficult because:
  - (a) Bureaus were involved in the fiscal affairs of numerous activities over which they did not have management control.
4. Effective budget presentation was difficult because:
  - (a) Fiscal requirements for each primary function were presented in "piecemeal" fashion.
  - (b) Contributing appropriations were justified by bureaus which did not have principal management responsibility.
  - (c) Contributing appropriations emphasized the "means" rather than the "end".
  - (d) As a result, it was impossible to present clear and concise estimates to Congress and the Bureau of the Budget.<sup>2</sup>

These defects were rectified to some limited degree through the reduction of the number of appropriations from 61 to 48 between 1946 and 1950.

With the introduction of Performance Budgeting the Navy's budget for fiscal year 1951 contained 21 appropriations. In fiscal year 1954 the Navy showed 22 main appropriations.

Navy Action. In March of 1949 during the house hearing on the National Military Establishment Appropriation Bill for 1950, Admiral Herbert Hopwood, Director of Budgets and Reports, Department of the Navy,

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<sup>2</sup>C. L. Kelchner - "The Development of a Performance Budget for the Department of the Navy" - May 1950, pp. 47-48 (Unpublished Thesis)



stated his views on the Hoover Commission recommendation for a performance budget. He stated that the Navy already had a budgeting and accounting system established similar to that recommended by the Hoover Commission in February, 1949. Admiral Hopwood told the Committee that the Navy's efforts for 1951 would be directed to comply with a directive from the Director of the Bureau of the Budget sent to the Secretary of Defense stating that in 1951 he wanted the Army and Navy appropriation structure to be revised in line with the budget recommended by the Hoover Commission.

In November of 1953, the Secretary of the Navy, before Preparedness Subcommittee #3 for the Implementation of TITLE IV of the National Security Act Amendments of 1949, Senate Armed Services Committee stated the progress made by the navy with respect to the implementation of TITLE IV.

The Secretary said that:

TITLE IV requires the adoption of a program or performance budget which focuses attention upon programs: (1) objectives to be attained; (2) cost; (3) accomplishment. It also requires the segregation of operating and capital programs. Fortunately, the Navy has long been so organized as to facilitate the identification of functional programs. The annual objectives for each program are defined in the Basic Naval Establishment Plan, which is revised during the year as planning progresses. Thus, functional programs in the Navy are given reality and meaning by identification with responsible organizations, stated missions, and specific objectives. <sup>3</sup>

Secretary Anderson stated that in order to properly implement the performance budget structure it was necessary to revise completely the appropriation and fund accounting system of the Department of the Navy. He said that this has been accomplished in a manner which permits the accumulation of costs consistent with the budget structure. <sup>4</sup>

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<sup>3</sup>Statement of the Secretary of the Navy before Preparedness Subcommittee #3 for the Implementation of TITLE IV of the National Security Act Amendments of 1949 - Senate Armed Services Committee, Pp. 6-7

<sup>4</sup>Ibid. P. 7





From the statements of Secretary of the Navy, Anderson, and Admiral Hopwood it appears as though the Navy Department has in its opinion progressed rapidly along the lines set forth by the Congress in Section 403 of TITLE IV.

Whether the Navy has or has not progressed along the desired lines will be discussed in the following chapter which discusses what the Congress and the Navy Department interpret to be the meaning of Performance Budgeting and the principles that have evolved as being commonly acceptable to both as a basis for proper presentation of a performance budget.





## CHAPTER II

### WHAT IS PERFORMANCE BUDGETING

This chapter puts forth various definitions of a performance budget by the Department of the Navy, Congress, the Treasury Department and private persons involving themselves with governmental budgeting.

From these definitions, it will be shown, has evolved a set of commonly acceptable principles applied in developing the system of Performance Budgeting which will consolidate all costs under a given program so that instead of a mass of unrelated data, all who are involved with the Federal Budget will clearly understand what the tax money is doing for the U. S. In the case of the Navy Department we hope to establish a clear picture of what is being bought in terms of National Security.

Definitions of Performance Budget. The Secretary of the Navy:

The performance or program budget focuses attention upon programs:

- (1) Objectives to be attained
- (2) Cost
- (3) Accomplishment

It also requires the segregation of operating and capital programs. <sup>1</sup>

Mr. Robert L. L. McCormick:

The new Budget will present two plans: the financial plan, in tables of figures and the program plan in narrative style, with the two related through performance data. <sup>2</sup>

Treasury Department:

Before the adoption of the Performance Budget Federal agencies

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<sup>1</sup>Statement of Secretary of the Navy op. cit., P. 6-7

<sup>2</sup>Newsletter by Robert L. L. McCormick, Director of Research, Member of Citizens Committee for the Hoover Report P. 2



presented requests for appropriations in terms of certain standardized "objects of expenditures" each of which represented a particular type of service or material to be paid for. The "object" classification was often very useful in analysis but as a basis for presentation of the budget, it had serious limitations. The object schedule of budgeting did not adequately reveal to reviewing authorities what was being done and what would be done if they approved the budget. The performance budget reduces the object schedule to a supporting role and puts primary emphasis where it belongs - on the programs for which the Bureau is requesting money. The performance budget is based on bureau activities, that is upon the things the bureau proposes to do. <sup>3</sup>

Committee on Armed Services, House of Representatives -- The re-

port of the Committee covered those items which later became known as

TITLE IV of the "National Security Act Amendments of 1949". In explaining the provisions of Section 403, the Committee reported as follows:

---that the budget estimates of the National Military Establishment be formulated, presented, and justified, and authorized programs administered, in a manner that clearly reflects the cost of performance of functions and activities that can be identified readily as self-contained integrated operations. . . .The subsection requires that operating and capital costs be separated. . . .Subsection (a) is intended to eliminate. . .difficulties by financing each identifiable project or budget program from a single source, thus clearly fixing management responsibility, simplifying reporting, and permitting departmental management and the Congress to move easily to determine costs and to evaluate progress and accomplishments. Its effect is to make the budget structure parallel the management structure. Thus the cost of performance of functions and activities will be reflected clearly. <sup>4</sup>

Principles. From these definitions of a Performance Budget there did evolve a pattern by which the Naval Establishment could set up a system through which they might carry out their responsibilities as set forth under TITLE IV of the National Security Act of 1947 as amended.

The Committee on Armed Services, House of Representatives stated the following principles:

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<sup>3</sup>Performance reporting - U.S. Treasury Department, May 1950 P. 2

<sup>4</sup>U.S. Congress, House, Committee on Armed Services, 81st. Congress, 1st. session, Report #1064 on Reorganizing Fiscal Management in the National Military Establishment (Washington, D. C.: U.S. Government Printing Office, 1949) Pp. 3-4.



Basic Principles. The underlying principles of the performance budget contemplates:

- (a) that all costs relating to a logical and identifiable program be included as a project or a budget program for presentation and justification by the Department concerned to the Bureau of the Budget, the President, and the Congress, and for administration and reporting after the appropriation of monies;
- (b) that there be a logical and, so far as practical, uniform grouping of projects or budget programs by the primary functions of the military departments, with this grouping paralleling so far as possible, the organization and management structure;
- (c) that there be a segregation between capital and current operating categories.<sup>5</sup>

Problems Involved in Developing a Performance Budget. In order to implement TITLE IV, the Navy was forced to recognize the problem with which it was confronted, to develop a base from which it could develop logical programs, and to develop a system of costs which would in fact relate costs to the objectives that would be obtained with the budget dollar.

In 1950 the problem that was causing most concern was that of a defective appropriation structure. Even with improvements made in the appropriation structure which reduced the number of appropriations from 61 to 43 during the period 1946-1950, the basic defects in the appropriation structure as it existed in 1950 were very similar to those that existed in 1946. They were:

- 1) Appropriation requests were formulated along program or functional lines. No bureau or office could accurately account for the cost of conducting important programs.
- 2) Fiscal responsibility was diffused, with the result that internal management was complicated. Lack of uniform theory of appropriations structure resulted in the intermingling of appropriations based on

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<sup>5</sup>Ibid. P. 5





organizational concepts.

Correction of the stated weaknesses was the approach used in formulating a performance budget by the Navy to implement TITLE IV.

As a starting point in its performance budget the Navy decided to base its appropriation structure on the development of programs. A program was defined as a "complete plan of action to accomplish an objective or as an area of primary interest or significance".<sup>6</sup>

Programs were subdivided into: (1) activities----identifiable segments of a major program which indicate purpose, objectives or service rendered by the program and (2) sub-activities----the elements contributing to the development of the activity.

The next step after this decision to break programs into activities and sub-activities was to set down a set of principles that would be used as a basis for determining major programs. It appears that the intention to define programs would be to indicate in the appropriation bill, which must be passed by the Congress, the exact nature of the Navy's business activities.

The following principles were formulated as a basis for determining major programs:

- (1) The primary objective of the performance budget structure should be to provide top management with information for purposes of consideration and control on the basis of broad programs, representing either plans of action to accomplish an objective or areas of primary interest or significance.
- (2) The cost of a program should be included in a single appropriation when feasible.
- (3) The budget should be formulated on the basis of two types of programs: capital programs such as Construction of Ships, and

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<sup>6</sup>Department of Navy, Concept of the Navy's 1951 Performance Budget, Navy Publications Nav Exos, P. 683 (Office of Budget and Reports, Feb. 1950) P. 6.





operating programs such as Ships and facilities, those representing areas of primary interest such as military personnel, and those of a service wide nature such as certain supply, communication, and administrative operations.

(4) In assigning budgeting responsibility by programs, funds should be allocated, to the maximum extent possible, to basic programs. Funds should be included in service wide programs only when it is not considered feasible to allocate such funds directly to the basic programs receiving of the service involved.

(5) The programs selected should lend themselves to comparison with similar programs of the Air Force and Army.

(6) Fiscal management must parallel management responsibility.

(7) Fiscal responsibilities should be assigned with the view of accomplishing, whenever possible, the following objectives:

(a) Simplifying internal management by having bureaus and offices control the fiscal offices of only those shore installations over which they have primary management control.

(b) Facilitating fiscal control by causing all expenditures for a shore installation to be made under allotments from a single bureau or office.

(c) Bringing about effective budget presentation for installations of the shore establishment by presenting the complete cost of operating such activities.

The determination of major programs proved to be the most difficult problem that confronted the Navy in developing the Performance Budget.<sup>7</sup>

For Fiscal year 1954 the Navy has developed these principles to the extent that they now present to the Congress as the Navy's plan of action, 22 broad programs which if properly administered will permit the Navy to carry out its assigned mission in the Military Establishment.

Appropriation Structure, F. Y. 1954. As a basis of comparison with and analysis of the principles just listed, the writer deems it necessary to present Navy appropriations for Fiscal year 1954. It should be readily seen that these appropriation titles bring into focus the areas of most importance such as military personnel. Capital programs such as Construction of Ships and also operating programs such as Marine Corps Troop and Facilities are also high-lighted in the appropriations for Fiscal year 1954.

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<sup>7</sup>Kelchner, op. cit., Pp. 143-144



In order to give the reader an idea of the Navy concept, the writer has listed here these 22 broad programs and included a brief description of the scope of each.

1. Military Personnel, Navy

For pay, allowance, subsistence, interest on deposits, gratuities, clothing, permanent change of station travel (including expenses of temporary duty between permanent duty stations), training duty travel of midshipmen paid hereunder, and transportation of dependents, household effects, and privately owned automobiles, as authorized by law, for regular and reserve personnel on active duty (except those on active duty while undergoing reserve training), midshipmen at the Naval Academy and aviation cadets.

2. Military Personnel, Naval Reserve

For pay, allowances, clothing, subsistence, gratuities and travel, as authorized by law, for personnel of the Naval Reserve on active duty while undergoing reserve training, or while performing drills or equivalent duty, regular and contract enrollees in the Naval Reserve Officers' Training Corps; and retainer pay authorized by the act of August 13, 1946 (34 USC 1020h).

3. Navy Personnel, General Expenses

For expenses necessary for general training, education and administration of regular and reserve personnel, including tuition, cash book allowances of not to exceed \$50.00 for each Naval aviation college program student, and other costs incurred at civilian schools, general training aids and devices, procurement of military personnel, and authorized annuity premiums and retirement benefits for civilian members of teaching staffs; maintenance and operation of Navy training and personnel facilities, including the Naval Academy, Naval Post Graduate School, Naval War College, Naval Home, Navy training schools and facilities, disciplinary barracks, and retraining commands; rent; hire of motor vehicles; not to exceed \$30.00 per person for civilian clothing, including an overcoat when necessary, for enlisted personnel discharged otherwise than honorable; welfare and recreation; medals and other awards; research and development; and departmental salaries.

4. Military Personnel, Marine Corps

For pay, allowances, subsistence, interest on deposits, gratuities, clothing, permanent change of station travel (including expenses of temporary duty between permanent duty stations), and transportation of dependents, household effects, and privately owned automobiles, as authorized by law for regular and reserve personnel on active duty (except those on active duty while undergoing reserve training).





5. Military Personnel, Marine Corps Reserve

For pay, allowances, clothing, subsistence, gratuities and travel, as authorized by law, for personnel of the Marine Corps Reserve and the Marine Corps platoon leaders class on active duty while undergoing reserve training, or while performing drills or equivalent duty.

6. Marine Corps Troops and Facilities

For necessary expenses of troops and facilities of the Marine Corps not otherwise provided for, including maintenance and operation of equipment and facilities, and procurement of military personnel, training and education of regular and reserve personnel, including tuition and other costs incurred at civilian schools; welfare and recreation; not to exceed \$30.00 per person for civilian clothing, including an overcoat when necessary, for enlisted personnel discharged other than honorably; research and development, procurement and manufacture of ordnance, ammunition, and other military supplies, equipment and clothing; purchase, for replacement only, and hire of passenger motor vehicles; transportation of things; industrial mobilization; rent; medals, awards, emblems and other insignia; care of the dead; and departmental salaries.

7. Aircraft and Facilities, Navy

For expenses necessary for maintenance, operation, and modification of aircraft; maintenance, operation and lease of air stations, and facilities, testing laboratories, fleet and other aviation activities; procurement of services, supplies, special clothing, tools, materials, and equipment, including rescue boats; research and development; industrial mobilization; aerological services, supplies, and equipment for the Navy and Marine Corps; and departmental salaries.

8. Aircraft and Related Procurement, Navy

For construction, procurement, and modernization of aircraft and equipment, including ordnance, spare parts, and accessories thereof; expansion of public . . . private plants including the land necessary therefor. . . and such land, and interests therein, may be acquired and construction prosecuted thereon prior to approval of title by the Attorney General. . . procurement and installation of equipment in public or private plants; and departmental salaries necessary for the purposes of this appropriation, to remain available until expended.

9. Ships and Facilities, Navy

For expenses necessary for design, maintenance, operation and alteration of vessels; maintenance and operation of facilities; procurement of plant equipment, appliances, and machine tools, and installation thereof in public or private plants; procurement of equipment, supplies, special clothing and services, including subsistence and other expenses of civilian crews of vessels; installation, maintenance and removal of ships' ordnance; lease of facilities and docks; charter



and hire of vessels; relief of vessels in distress; maritime salvage services; research and development; industrial mobilization; and departmental salaries.

10. Construction of Ships, Navy

For an additional amount for "Construction of Ships", to remain available until expended. . . .

11. Construction of Ships (Liquidation of Contracts Authorization), Navy

For liquidation of obligations incurred pursuant to authority heretofore granted under this head. . .to remain available until expended.

12. Shipbuilding and Conversion, Navy

For expenses necessary for the construction, acquisition, or conversion of vessels as authorized by law, including armor and armament thereof, plant equipment, appliances, and machine tools, and installation thereof in public or private plants; and departmental salaries necessary for the purposes of this appropriation. . .to remain available until expended; Provided, that the unexpended balance of the appropriation "Ordnance for shipbuilding and conversion" is hereby merged with this appropriation: Provided further, that the total of obligations incurred under the heads "Shipbuilding and conversion" and "Ordnance for shipbuilding and conversion". . .shall not exceed. . . .

13. Ordnance and Facilities, Navy

For expenses necessary for the production and procurement of Navy Ordnance and ammunition (except ordnance for new aircraft, new ships, and ships authorized for conversion); alteration, preservation, and handling of ordnance and ammunition; maintenance of ordnance (except installation, maintenance, and removal of ships' ordnance, and line maintenance of ordnance installed in aircraft); maintenance and operation of ordnance facilities; procurement of equipment, supplies, special clothing and services; procurement of plant equipment appliances, and machine tools, and installation thereof in naval or private plants, lease of facilities; research and development; industrial mobilization; and departmental salaries.

14. Ordnance for New Construction (Liquidation of Contract Authorization)

For liquidation of obligations incurred pursuant to authority heretofore granted under this head. . . .

15. Medical Care, Navy

For expenses necessary for maintenance and operation of naval hospitals, medical centers, clinics, schools, research facilities, and other naval activities; procurement of ambulances, medical and dental supplies, equipment and services; rent; instruction of medical personnel in naval hospitals, naval schools, and civilian schools; research and development; industrial mobilization; care of the dead; and departmental salaries.





#### 16. Civil Engineering, Navy

For expenses necessary for maintenance and operation of district public works offices, public works centers, construction battalion centers, defense housing projects, other civil engineering facilities, and shore activities not otherwise provided for; procurement of services, supplies, and equipment for the foregoing activities; purchase and hire of passenger motor vehicles; research and development; engineering services; industrial mobilization; and departmental salaries.

#### 17. Military Construction, Navy Civilian Components

For construction, acquisition, expansion, rehabilitation and conversion of facilities for the training and administration of the reserve components of the Navy and Marine Corps. . . and land and interests therein may be acquired and construction prosecuted thereon prior to the approval of title by the Attorney General. . . to remain available until expended.

#### 18. Facilities, Navy

For expense necessary for acquisition, construction, and installation of production facilities and equipment, and test facilities and equipment (other than those for research and development), including the land necessary therefor. . . and such land, and interests therein, may be acquired and construction prosecuted thereon prior to the approval of title by the Attorney General. . . such amounts as may be determined by the Secretary of the Navy, and approved by the Secretary of Defense and the Bureau of the Budget, and said amounts shall be derived by transfer from any appropriations available to the Department of the Navy, during the fiscal year 1954 for procurement of equipment for installation or use in private plants. . . .

#### 19. Research, Navy

For conduct and encouragement of research and development, not otherwise provided for; dissemination of scientific information; administration of patents, trade-marks, and copyrights; maintenance and operation of research and development facilities; development, installation, and maintenance of special devices (including specialized housing therefor); procurement of supplies, services, and equipment; departmental salaries; and other expenses necessary in carrying out the act of August 1, 1946 (5 U.S.C. 475), to remain available until expended.

#### 20. Service-wide Supply and Finance, Navy

For expenses necessary for maintenance and operation of service-wide supply and finance activities, including supply depots and centers, market and purchasing offices, supply demand control points, fleet fueling facilities, overseas air cargo terminals, regional accounting and disbursing offices, the material catalog office, the cost inspection service and other service-wide supply and finance facilities, as designated by the Secretary; procurement of supplies, services, special



clothing, and equipment; rent; intra-Navy transportation of things and transportation of household effects of civilian employees; research and development; industrial mobilization; losses in exchange and in the accounts of disbursing officers, as authorized by law; and departmental salaries.

#### 21. Service-wide Operations, Navy

For expenses necessary for maintenance and operation of the Naval Observatory, the Hydrographic Office, Service-wide Communications, Naval Records Centers, Naval District Headquarters (except training offices), River Commands, and other service-wide operations and functions not otherwise provided for; procurement of supplies, services and equipment for activities financed hereunder; Latin-American cooperation. . .for emergencies and extraordinary expenses. . .to be expended on the approval and authority of the Secretary, and his determination shall be final and conclusive upon the accounting Officers of the Government; and departmental salaries.

#### 22. Naval Petroleum Reserves

For expenses necessary for exploration, prospecting, conservation, development, use, and operation of the naval petroleum reserves, as authorized by law. . .to remain available until June 30, 1955: Provided, that the unexpended balances of appropriations heretofore made available under the heads "operation and conservation of naval petroleum reserves" and "Naval petroleum reserve Numbered 4, Alaska" shall be merged with this appropriation.<sup>3</sup>

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<sup>3</sup>The Budget of the United States Government for the Fiscal Year ending June 30, 1954 (Washington, D. C. 1953) pp. 586-610.



## CHAPTER III

### PERFORMANCE REPORTING

The definition of programs and the development of the activities and projects within the scope of these programs is only one of the facets of a performance budget. After the programs to be presented to Congress, in the form of the Navy Department's budget, are formulated, the bureau primarily responsible for the execution of this program must necessarily supplement this program with justified data which will support the bureau's estimate or request for funds to operate within this program for the next Fiscal year. In order to gather accurate data which can be used in justifying a program, some system must be maintained by the bureaus and departments. This system for purposes of this paper will be called "Performance Reporting".

In order to give a broad concept of this phase of Performance Budgeting, this chapter is written to parallel the previous chapter in that here is presented definitions, and principles offered by both civil and governmental agencies.

#### Definitions.

The new performance budget offers great potential advantages, but these cannot be realized until certain changes are made in the reporting and accounting systems which provide the data that go into the budget.

If a bureau is going to base its budget on its activities it has to get financial and operational reports, on each activity so that it can show for each of them workload and accomplishments on the one hand,





and costs and related financial data on the other. Performance reporting systems therefore are based on the activities used in the budget.<sup>1</sup>

A system of regular periodic reports that will compare actual accomplishment with the budget plan. Such reports are invaluable to the chief administrator for initiating corrective action when accomplishment falls short of expectation. These reports also furnish data useful for forecasting future budgeting requirements.<sup>2</sup>

Mr. A. E. Buck stated as regards Performance Reporting that such a system should "enlighten those who read in support of the budget. . . . Should indicate a definite relationship between what is appropriated and what is spent for a given period. . . .Should show administration plans and programs in terms of accomplishment or results".<sup>3</sup>

Purpose of Performance Reporting. Bartizal has given an essential purpose for the establishment of a system of reporting when he stated that "actual operating results should be compared with budget estimates at frequent intervals so that differences may be determined and analyzed in time for corrective measures to be effective."<sup>4</sup>

The reporting system should reflect a savings to the Department or bureau instigating the system. In other words, a report of any nature involves costs. These costs must be more than offset as reflected by savings derived from the information shown on the report. In order to have a report reflect savings, the report must be used by management as an instrument through which managerial control may be connected directly with fiscal control. By use of periodic reports from subordinate units responsible

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<sup>1</sup>Performance Reporting op. cit., P. 4

<sup>2</sup>An approach to the Technique of Performance Budgeting, Research Bulletin No. 10 Org. and Adm. Series, June 1952, Contra Costa County, California, P. 5

<sup>3</sup>Performance Budgeting for the Federal Gov't. A.E. Buck - Tax Review July 1949 Vol. X #7.

<sup>4</sup>J. R. Bartizal, "Budget - Principles and Procedure", P. 5





managers should, through correct analysis and interpretation, be able to make any adjustments necessary to correct any deficiencies that might cause the program or project to be out of line with the projected budget.

As stated in a pamphlet issued by the City of Los Angeles, California the purpose of performance budget reporting procedure should be:

To provide supervisors and managerial personnel with timely data to aid in making any necessary adjustments in personnel assignments which might arise due to fluctuation in work loads.

To provide information for reviewing the execution of departmental work programs, for appraising operating and management practices, and for analyzing the status of appropriations, personnel authorization and assignments in relation to volume of work.

To provide reliable and factual work measurement data for use in improving statistical presentations in future work programs submitted in support of departmental budget estimates.

To provide an adequate basis for ascertaining the before and after effects of procedural, organizational and other related changes and for promoting the maximum effectiveness in personnel utilization. 5

When the Navy department was faced with the need of reporting on a performance basis through the introduction of TITLE IV of the National Security Act of 1947 as amended, there were basic problems that had to be overcome or remedied in order to develop an adequate and integrated system of reporting. An approach to these problems was set down by the Treasury Department. The Department said that "your bureau will proceed with 4 major steps: First - Development of overall activity classification and breakdowns wanted for management, budgeting, accounting and reporting purposes; Second - Selection of meaningful work units for each activity; Third - Revision of Fiscal and accounting processes to better reflect activity costs; Fourth - Realignment of reporting system so that it will provide performance data on an activity basis." 6

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<sup>5</sup>Performance Budget Reporting Procedure of the City of Los Angeles, City Administrative Officer, June 1952, P. 1-2

<sup>6</sup>Performance Reporting, op. cit., P. 21



The first thing that a bureau has to do, then, is to identify its major functions, divide these major functions into general activities, and establish further sub-divisions of the activities (Projects) as are desired for budgetary or management purposes. This will provide the framework on which budgeting, accounting and reporting systems should be based. A look at the appropriation structure of the Navy I believe shows exactly what has been done along this line. For purposes of clarity the writer has introduced here an example of this sub-division of programs into activities and Projects.

Program: Appropriation Title: Marine Corps Troops and Facilities

Activity 1. Forces and Stations

- Projects
- 1A Equipment and Spare Parts for Repair and Overhaul
  - 1B Maintenance and Operation of Stations
  - 1C Equipment and Supplies
  - 1D Care and Preservation of Ammunition
  - 1E Maintenance and Preservation of Mobilization Reserve

Activity 2. Major Procurement

- Projects
- 2A Ammunition and Guided Missiles
  - 2B Weapons and Ordnance Equipment
  - 2C Electronic Equipment
  - 2D Vehicles
  - 2E Railroad, Construction and Heavy Materials Handling Equipment

Activity 3. General Expenses, Marine Corps Personnel

- Projects
- 3A Recruiting Expenses
  - 3B Training Support
  - 3C Clothing
  - 3D Miscellaneous Individual Support

Activity 4. Transportation of Things

- Projects
- 4A Inland Transportation
  - 4B Ocean Transportation

Activity 5. Marine Corps Reserve

- Projects
- 5A Ground
  - 5B Aviation



Activity 6. Research and Development  
Projects 6A Air Defense  
6B Amphibious Operations  
6C Intelligence and Planning Operations  
6D Personnel Operations  
6E Supporting Research

Activity 7. Industrial Mobilization  
Projects 7A Planning within Department of Defense

Activity 8. Cataloging  
Projects 8A Personal Services  
8B Stationery and Office Supplies  
8C Stock Numbering and Cataloging of Electronic Equipment  
8D Printing and Reproduction  
8E Travel

Activity 9. Departmental Administration  
Projects 9A Personal Services <sup>7</sup>

Methods of Development. Ideally, the framework of a Reporting System should be related to the organizational structure in such a manner as to facilitate the decentralization of appropriate budgeting, program and financial responsibility to every level of management.

After the activity pattern is established the next problem is to devise some method of measuring workload and performance for each activity. The key to such measurement is the selection of a work unit which is some product or aspect of the activity that can be counted or measured to indicate with reasonable accuracy the amount of work that has been accomplished.

Because of the varying nature of the work performed the work units for each activity will differ. This does not pose any problem as concerns the analysis and interpretation of the activities performance because that activity's progress is measured continually in terms of the same unit.

As a result of national experience in the development and adminis-

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<sup>7</sup> Manual for the Formulation and Execution of the Annual Marine Corps Budget Nav MC (1076) April 17, 1953, pp. 33-43





tration of performance budgeting and reporting, Contra Costa County of Martinez, California offers these recommendations to the budget making authorities of the Federal Government.

1. In cooperation with department heads, make a complete inventory of all services and/or activities performed by the governmental unit. Include every activity no matter how insignificant it may seem. Although individual activities may seem inconsequential, the sum of such items may account for a sizeable percentage of the total government expenditure.

2. Thoroughly analyze each service and/or activity inventoried; validate each by comparison with objectives set forth by general law, the charter, the administrative code, etc. Those activities which cannot withstand this searching review should be discontinued immediately and the inventory revised accordingly.

3. Select an appropriate unit for measuring the volume of each valid service and/or activity.

4. Devise a chart of accounts designed to classify expenditures in accordance with the services and/or activities resulting therefrom. To be useful in subsequent budgetary control, these accounts must be subsidiary to the general accounting system.

5. Where appropriate, compute unit costs for each service and/or activity based on volume statistics and total expenditures.

6. Compute a budget for each activity by extending the anticipated work load by the corresponding unit cost. Unit costs used in budgetary estimates should be adjusted for any changes in wage levels, service or commodity or price levels and changes in work methods anticipated for the ensuing fiscal period.

7. Draft appropriation legislation that meshes with the budgetary accounting plan; thereby providing for simultaneous control of appropriations, expenditures and operating costs.

3. Develop a system of regular periodic reports that will compare actual accomplishment with the budget plan. Such reports are invaluable to the Chief Administrator for initiating corrective action when accomplishments fall short of expectations. These reports also furnish data useful for forecasting future budgetary requirements.<sup>3</sup>

The volume of accomplishments along a projected line should be measured effectively through a good system of performance reporting. The volume of accomplishments of an agency's programs can be measured by records maintained of the progress of each program for a period of time. To be truly effective these records should consist of reports forwarded

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<sup>3</sup> An Approach to the Technique of performance Budgeting, op. cit.,  
F. 4-5



to the Control and Analysis branch of any agency preferably monthly and at least quarterly. In accordance with Sec. 403 of the National Security of 1947 which says "That the budget estimates of the Department of Defense shall be prepared, presented and justified, annually," it is imperative that all back up data in report form be accumulated annually.

The basis of justification of agency programs are the records maintained showing accomplishment and satisfactorily explaining the methods and procedures used in formulating a budget. Assuming that a program of work is planned as a program to extend over a period of time in excess of one year, the agency must realize that in order to obtain any funds at all the agency must, through justifications submitted with estimates to Congress, convince the purse holders of the need for such a program. Congress has to be sold on the undertakings of any agency. The agency or department must project a definite forecast of what it intends to accomplish through its programs in the fiscal year with the funds that it hopes to obtain.

The following year the agency or department must, if it hopes to continue its program, justify to Congress that it has, at least closely, correctly forecast the volume of accomplishments for the past year. The only method of showing this volume of accomplishment is the records and reports maintained of the program by the agency or department. There exists today a deep appreciation among operating agencies and departments that any real justification of appropriations "lies in the performance of planned work rather than in categories, by objects, specified numbers, or quantities".<sup>9</sup>

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<sup>9</sup>A. E. Buck op. cit., P. 1



## CHAPTER IV

### PRO AND CON

Although progress has been made in performance budgeting and reporting since its inception in the Military Establishment, all is not perfect. Many are the individuals who peruse an estimate; varied are the opinions as to the estimates' acceptability. Some of these individuals in important places in our budget review process have expressed their opinions through some media of communication. An attempt is made to indicate the pro and con of these expressions. This is accomplished by quoting such sources of information as the Congressional Record, books, and reports of appropriation committees.

Very few expressions in favor of the present budget process are to be found in writing. Invariably when searching through the Congressional Record one finds only statements concerning performance budgeting which criticize some facet of the system.

Mr. Robert L. L. McCormick, Director of Research, Member of the Citizens Committee for the Hoover Report set forth some expectations for the Performance system of Budgeting. He wrote:

The New budget will break down over 90% of the appropriations to show the programs, projects or activities to be carried on and the dollars devoted to each. It is hoped that work output will be shown under each program. It will be possible to relate one operation to another. It will be possible to relate like operations and weed out the inefficient.<sup>1</sup>

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<sup>1</sup>Robert L. L. McCormick op. cit., p. 2



Indeed, Mr. McCormick appears to have forecast correctly the accomplishments of the Performance Budget. By referring to the breakdown of appropriations in Chapter II the reader will see that the appropriations are broken down to show programs and do have dollar requests attached to each. In Chapter III the further breakdown of a program into activities and projects permits a still better understanding of what is being done.

Through an integrated work measurement program currently being used by some bureaus in the Navy it is possible to examine the work output to some degree. There is no intent here to go into a discussion of the work measurement program but suffice it to say that is is the writer's opinion that such a system can and will make it easier for administrators to relate accomplishment in terms of work output to the dollars being spent for the program.

Mr. McCormick goes on to say that:

The Commission on Organization of the Executive Branch cited advantages of Performance Budgeting as follows:

- 1) It "gives more comprehensive and reliable information to the President, the Congress and the general public".
- 2) It "helps the individual congressman to understand what the government is doing, how much it is doing and what the costs are".
- 3) It will "improve Congressional examination of budgetary requirements" and "enable the appropriation committees more easily to decide the basic expenditure issue each year".
- 4) It will "make it possible for the budget document to be submitted and acted upon in a short length of time".
- 5) It will "enable administrators to place responsibility upon subordinate officials for the clear execution of the provisions made by the Congress".<sup>2</sup>

Mr. McCormick anticipated that future budget documents would offer further improvement in program reporting and accounting, and that additional

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<sup>2</sup>Ibid., P. 3





effort would be put on the budget.

I think it appropriate here to quote those men who are the controlling factors, the purse holders, the Congressmen and Senators who are the individuals who must pass judgment on the programs of the Navy. More specifically involved with the Navy programs and appropriations is the Committee on Naval Appropriations. I quote these men to indicate to the reader their opinion of the Military budget for Fiscal year 1953.

Representative Jones of Missouri says "I am sure I am not alone in my inability to comprehend all of these big figures of billions, about obligations and unspent funds". <sup>3</sup>

Chairman Mahon of the House Subcommittee says "One of the things that is upsetting to all is the fact of waste. That is one reason we cut as much as 4.2 billion. A certain amount of waste is inevitable. All we are trying to do is reduce that waste to the very lowest point possible". <sup>4</sup>

Mr. Tabor of New York says:

We have had 6 weeks of hearings in the subcommittees and we have tried the best we could to find out what the bill was all about. Frankly, it has been exceedingly difficult because the justifications that were brought before us were perfectly ridiculous; in other words, they were not intelligible. They were not in such shape that they could be understood or could be explained without the addition of a lot of other items. We started in with the Unification act of the so-called performance budget. Performance Budgeting means consolidating the appropriations items into one or two or three or four items. <sup>5</sup>

Mr. Sutton of Tennessee quotes page 15 of the report on Department of Defense Appropriation Bill for 1953. "In a number of instances witnesses were not sufficiently familiar with the programs to explain clearly

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<sup>3</sup>U. S. Congress, Congressional Record, Senate, 82nd. Congress, 2nd. Session, Vol. 93 #53, P. 3672

<sup>4</sup>Ibid., P. 3674

<sup>5</sup>Ibid., P. 3675



what had been done with funds granted in prior years, or what would be done with the 1953 request." <sup>6</sup>

The Committee on appropriations says that in general the justifications submitted by the Department of Defense ". . .in support of budget requests were, in many respects very unsatisfactory due to failure of higher authority to make the necessary program decisions in time for proper and detailed consideration to be given to supporting information. From the information it was not possible for Congress to ascertain the number of people assigned or required to perform a project or function." <sup>7</sup>

The Committee made the following recommendation in this regard: "Higher authority should make decisions in sufficient time to allow the operating levels to compile information required to support budget requests." <sup>8</sup>

Undoubtedly at this point it is apparent that Congress is concerned directly with the justifications which are submitted in support of the budget requests. The problem confronting the military planners and makers of the estimates is one of presenting to the Congress a finished product which will leave no doubt in the minds of the Committee members that the estimate is accurate, dependable and honestly and sincerely derived. The firmer an estimate is, the more likely that it will be acceptable to Congress. The subcommittees are less likely to reject a proposal based on statistics than they are one based on a rough guess.

It is not always possible to offer justifications based on statistics. The beginning of a new program or the translation of a program into different unknown terms of cost make this rough guess necessary.

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<sup>6</sup>Ibid., P. 3679

<sup>7</sup>Explanatory Notes on the Committee on Appropriations H. R., 32nd. Congress, 2nd. Session, April 7, 1952, P. 6

<sup>8</sup>Ibid., P. 6



Past performance is often a potent weapon used in selling a program to Congress. Appropriations Committees are very much impressed with figures and facts based on experience. Usually these Committees will accept estimates that do not differ from the appropriations that they condoned the previous year.

Regardless, then of the scope of the program for which an agency is trying to secure funds the prime consideration should be the shaping of justification along lines which will satisfy the committee members' curiosity regarding the program under consideration. One of the greatest obstacles to a more complete understanding on the part of the Congress is its appropriation process. Because the military budget is only a portion of the money bills that must be passed by the Congress not all of the Congress can devote their full time to the thorough analysis of the vast amount of data that must come before them.

Consequently, the House of Representatives and the Senate must form themselves into Committees to investigate the budget data. The Committees on Navy Appropriations, consisting of relatively few of the total of 531 Representatives and Senators, are concerned directly with the Navy's budget. These non-committee members vote the outcome of the Congressional review of the budget on the recommendation of the committee members when the appropriation bill is before the Committee of the Whole.

In other words a few people in Congress must analyze the presentation of the budget justification and make a decision that effects the Military Security of the country. These Committee members are members of long service in Congress. The Committee chairman who can





appoint other members to his Committee, is a member of the majority party. This fact, alone, should indicate that the money requests must be in line with party policy for defense spending. Each Committee member has his pet subject within the appropriation structure. In explaining and justifying budget requests, finesse must be used in satisfying all known viewpoints of the Committee members.

The satisfactory explanations, both verbal and written, required in support of estimates will determine to great extent the result of the many hours, days and months of work devoted to justification of budget estimates.



## CHAPTER V

### CONCLUSIONS

The performance system of budgeting, to date, has given a more thorough picture of the spending program of the Navy Department. By means of the revised appropriation structure which denotes what will be accomplished the Navy has given to Congress a better explanation of its budget requests.

In order to enable the appropriation Committees to compare actual costs of past operation with an estimate of future operations the appropriation accounting systems must be kept current to give a better presentation of data to Congress.

The problem of the military in obtaining Congressional approval of budget plans is of primary importance. The end purpose of the system of performance budgeting is to obtain, through justification, the funds necessary to operate projected programs. The writer is working on the theory that the budget estimates group of all the Navy's bureaus are conscientious people desirous of obtaining the maximum defense possible with the minimum of dollars.

This also should be the aim of the Congress. But it cannot be the case when the Congress has not the internal setup to properly examine the military budget in its true light. Of course, waste and improper and



illegal expenditure of funds should be eliminated but the Congress should not cut the budget just because they do not understand it.

From the writer's reading in this field, his opinion about Congressional cuts to the Military budget can be summarized as follows:

1. Lack of time available to the Congress for a full examination of the justifications to the estimates.
2. Lack of understanding by the Congress of the tools used in the preparation of the budget estimates (work measurement).
3. Distrust of military facts and figures obtained at hearings.
4. Political affiliation.

In order to remedy these shortcomings the internal organization of the Congress should be realigned to permit staff personnel from the Congress to work with the Navy Department to obtain a more complete understanding of the Navy's operating procedure as regards the budget.

The appropriation structure of the Navy at present does reflect performance in that objectives are stated, costs are stated and accomplishments are compared with the objectives. One appropriation, that of Military Personnel, alone does not reflect performance because of the impossible task of correctly allocating the costs of each individual to a particular program. This is especially apparent when one reflects that the basis for the request for funds must be a forecast of future disposition of all personnel.

A serious drawback to the attainment of maximum efficiency in budgeting within the Naval Establishment is the policy of rotation of key



personnel to billets other than those concerned with financial management. It is quite apparent that with this rotation policy in effect the system of performance budgeting must be such that it will propel itself during the changeover periods of incoming and outgoing personnel.

In order for such a system to have the driving force necessary to prevent any serious lag in the flow of information, a concentrated effort must continue to be placed on the reporting system. Reports must be of such form and content that needed information is readily attainable both in filling out the report and also in extracting the desired information from the reports.





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